



May 10, 2005

Mr. David Ikari, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
560 J Street, Suite 150
Sacramento, CA 95814

RE: May 3, 2005 Class 1 hearing – Post Hearing Brief:

Mr. Hearing Officer and Members of the Panel:

Dean Foods Company appreciates the opportunity to submit the following post-hearing brief to amplify our testimony and respond to other testimony that was presented on May 3rd 2005 in Sacramento, California.

1. Correction to exhibit provided with Mr. Ernest Yates testimony.

Attached is a correction to be used in place of the exhibit provided by Mr. Yates. Upon further review of the exhibit it was discovered that the Southern Class 1 price had been used in the calculations as opposed to the Northern Class 1 price. We apologize for the error and would like the former exhibit disregarded and this to replace it.

2. Opposition to Western United Dairymen

Dean Foods opposes Western United Dairymen's proposal to increase the Northern California Class 1 price. Dean Foods believes that such a change would have a negative impact on market conditions.

- **Unjustified change**
If the 27 cents that has existed in the past was correct, there does not appear to be in justification to increase the spread, if any thing the contrary, for the following reasons: 1) Cost of moving milk has increased. 2) The dependence on Northern milk in the south has increased.
- **External competitive conditions**
Any change in the relationship between the Northern and Southern price will have an impact on California's Class 1 milk's ability to compete with surrounding milk supply. While we are concerned about the current competition of out-of state milk we believe any increase in the Northern Class 1 price is going to proliferate out-of-state milk inflow.
- **Summary**
We do not see any evidence in the Record or in evaluating the market conditions that would justify the Secretary to support the proposal submitted by Western United Dairymen. Dean Foods firmly opposes this proposal and requests the Secretary to keep the alignment between north and south as exists currently.

3. Support for Dairy Institute's Proposal

Dean Foods wishes to reiterate our support for the Dairy Institute's proposal to lower the Class I price in both Northern and Southern Marketing Areas. We believe the prices are out of alignment with alternative supplies and other class prices.

- **Out-of-State inflow**
It is clear from the record that milk is moving into the state of California. Such movement is able to occur because the out-of state price of milk (typically the local statistical uniform price) is cheaper than the Class 1 price in California.
- **Round Tripping**
This is the product of a large spread between the Class 1 price and the overbase price, which allows round tripping to make economic sense. We would like to be clear that we feel this is a problem, but this problem has resulted from the massive inflow of farm direct out-of-state milk. We do

not feel round tripping to be the primary problem, but a reaction to the primary problem.

- Summary

The Secretary should adopt Dairy Institute's proposal to lower the Class 1 price to lessen the accelerated loss of class 1 sales and to stop Class 1 dollars that belong to all California producers from going to a select few producers, out-of-state interest, and trucking companies.

We sincerely appreciate your consideration of our post-hearing brief.

Sincerely,

Ernest Yates
V.P. Industry Relations

Cost Advantages of Round Trip and Out-of-State Packaged Milk

	Reno to Sacramento Round-Trip Advantage (\$ Per CWT)	Medford to Sacramento Out-of-State Advantage (\$ Per CWT)
2000 Average	\$1.1251	\$0.4909
2001 Average	\$1.2329	\$0.2875
2002 Average	\$1.0557	\$0.2234
2003 Average	\$1.2441	\$0.7658
2004 Average	\$1.0512	\$0.3070
2000-2004 Average	\$1.1688	\$0.4371

Assumptions:

Round Trip Milk:

Milk origination is Stockton, CA. Processing in Reno, Packaged sales in Sacramento
Bulk freight at \$2.10 per mile. - Packaged freight at \$1.80 per mile
Milk Cost in Stockton is CA overbase - premiums assumed to be equal to
CA Class 1 premium - handler pays all freight
Milk composition is California average Class 1 composition (2.17, 9.49 and 88.34)

Medford, Oregon Out-of-State Milk:

Milk cost is Pacific-Northwest Blend at Medford, OR - premiums are assumed to be equal
to CA Class 1 premium - handler pays all freight
Packaged freight at \$1.80 per mile
Milk composition is California average Class 1 composition (2.17, 9.49 and 88.34)

Cost Advantages of Out-of-State Bulk Milk

	Reno to Sacramento Out- of-State Bulk Milk Advantage (\$ Per CWT)
2000 Average	\$3.0250
2001 Average	\$2.6691
2002 Average	\$2.2329
2003 Average	\$1.5176
2004 Average	\$0.8226
2000-2004 Average	\$2.1199

Assumptions:

Reno, NV Out-of-State Milk:

Milk cost is CA 4b - premiums are assumed to be equal to CA Class 1 premium - handler pays all freight
Bulk freight at \$2.10 per mile
Plant Utilization - **Skim** - 95% Class 1 and 5% Class 2, **Butterfat** - 85% Class 1 and 15% Class 2